

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2004-535

September 22 2004

EASTERN MAINE ELECTRIC COOPERATIVE, INC.
Application for Approval of Issuance of
Securities and Mortgage Bonds
(35-A M.R.S.A. § 902, § 1101) (\$7,992,000)

ORDER APPROVING
ISSUE OF SECURITIES
AND MORTGAGE ON
UTILITY PROPERTY

WELCH, Chairman; DIAMOND and REISHUS, Commissioners

I. SUMMARY

On August 6, 2004 Eastern Maine Electric Cooperative, Inc. (EMEC or the Cooperative) filed an application for approval of the issuance of securities, through the Rural Utilities Service (RUS) and the National Rural Utilities Cooperative Financing Corporation (CFC) in order to finance the extension and upgrading of its distribution system. EMEC proposes to borrow \$7.992 million in multiple, individual drafts, none of which will have a final maturity date longer than 35 years. This combination RUS/CFC loan is to be drawn down by EMEC at 50% of the RUS availability, followed by the whole CFC amount followed by the remaining 50% of the RUS amount. Of the total amount, RUS and CFC have committed \$5.594 million and \$2.398 million in financing respectively. EMEC can select the amortization schedule and either a fixed or variable interest rate for each note as drawn, and all notes will be secured by a mortgage on utility property. This Order approves EMECs request.

II. ANALYSIS & DECISION

EMEC will use the proceeds of these financings for planned system upgrades and extensions, including the addition of roughly 40 miles of new distribution line designed to serve approximately 800 new customers projected to come on to the system by December 31, 2007. Also included in the construction plan is the addition of approximately 4 miles of new tie-lines, 80 miles of conversions, 1,200 distribution transformers and 870 new meters. In addition, this transaction will fund various sub-station improvements and miscellaneous items such as voltage regulators, capacitors, wire upgrades, poles, security lighting and other equipment. EMEC expects to draw down this credit facility following our approval and can continue to do so up to the \$7,992,000 limit until July 1, 2009, after which time the funds are no longer available under the proposed loan agreements.

EMEC has the ability to choose the amortization period for each note subject to the condition that that period will not extend past August 1, 2039. At the time of each draft EMEC will have the option, and has requested Commission approval, to choose either a fixed interest rate for the life of the loan or variable interest rate. Recently, RUS

offered a fixed rate of 5.00% for 20 years, which is subject to change quarterly. However, by committing now, EMEC will ensure that all drafts on the RUS portion of the loan are subject to a 7.00% rate cap out until the end of the draw period. CFC recently offered a fixed rate of 6.90% for a 20-year maturity, however, this rate is subject to weekly change and has no rate cap. CFC's variable rate was recently 3.30% and is based on CFC's cost of funds plus a small administrative charge.

As points of reference, the current Prime Interest Rate (a proxy for variable interest rates) is 4.25%, and the current long-term Baa-rated utility bond yield per Moody's (a proxy for fixed interest rates) was 6.37%. We believe the interest rate options are reasonable and grant EMEC permission to choose the rate and term options it deems appropriate at the time it draws down funds.

EMEC has acknowledged that at some point in the future (2007 to 2009) after these funds are completely drawn, a "modest" rate increase may be necessary in order meet all its financial covenants. As noted below, our approval here does not approve any rate-making treatment, and the Commission will examine any request for a rate increase by EMEC if or when such a request is made.

Pursuant to an Amended Delegation Order dated January 9, 1996, in Docket No. 94-401, the Commission delegated to the Director of Finance pursuant to 35-A M.R.S.A. § 107 (4), the authority to grant the Approval of Stocks, Bonds and Notes by the Public Utilities Commission, Chapter 9, 35-A M.R.S.A., in those circumstances that involved the approval of Maine Municipal Bond Bank (MMBB), Rural Utilities Service (RUS), National Rural Utilities Cooperative Finance Corporation (CFC), Rural Telephone Bank (RTB) and CoBank, ACB (CoBank) financing applications by telecommunication and electric utilities. The approval of the Director of Finance shall be in the form of an Order, copies of which shall be maintained in the files of the office of the Administrative Director.

Having reviewed the application of the Cooperative, together with data provided in support of it, it is the opinion of the Commission that the proceeds of the issuance of the securities are required in good faith for the purposes enumerated in 35-A M.R.S.A. § 901. In approving this securities issue, consistent with normal practice and pursuant to 35-A M.R.S.A. § 902(4), the Commission does not imply approval of the Company's capital needs, capital costs or capitalization ratio for rate making purposes, nor does this Order limit or restrict the powers of the Commission in determining or fixing any rate.

The mortgaging of utility property is customary in financing transactions of this nature and therefore the Commission also approves EMEC's request to mortgage utility property in connection with this financing as is required in 35-A M.R.S.A. § 1101.

Accordingly, pursuant to the Amended Delegation Order dated January 9, 1996, in Docket No. 94-401, I

O R D E R

1. That Eastern Maine Electric Cooperative, Inc. (EMEC) is authorized to issue securities collateralized by a mortgage interest on its utility property to the Rural Utilities Service (RUS) and the National Rural Utilities Cooperative Finance Corporation (CFC) as described in its application, in a sum not to exceed \$7,992,000 to be used solely for the purposes described in its filing. EMEC, at its option, may select either a fixed or variable interest rate on the date of each draft, and may also select the final maturity of each draft, with no draft having a maturity date later than August 1, 2039.

2. That EMEC report to the Commission, in writing its doings pursuant to this transaction (draft amounts, interest rates and maturity dates) annually by March 31 of each year until the total amount is drawn.

3. That a copy of this Order be mailed to interested parties and this Docket be closed.

Dated at Augusta, Maine, this 22nd day of September, 2004

BY ORDER OF THE DIRECTOR OF FINANCE

Richard M. Kania

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 21 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.